



Jay Bennett
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November 19, 2002

VIA ELECTRONIC SUBMISSION

Ms. Marlene H. Dortch
Secretary
Office of the Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Dear Ms. Dortch:

Re: **Memorandum of Ex Parte Communication**
CC Docket No. 01-338, Review of the Section 251 Unbundling
Obligations of Incumbent Local Exchange Carriers

CC Docket No. 96-98, Implementation of the Local Competition
Provisions in the Telecommunications Act of 1996

CC Docket No. 98-147, Deployment of Wireline Services Offering
Advanced Telecommunications Capability

On November 18, 2002, representatives of SBC met with members of the Wireline Competition Bureau staff to discuss development of a sustainable wholesale model for local competition. SBC proposed a transition plan that it believes could serve as a national model.

The attached materials were used as the basis of the discussions.

FCC participants in the meeting were William Maher, Jr. (Chief, WCB), Jeff Carlisle (Senior Deputy Bureau Chief), Scott Bergmann (Legal Counsel to the Bureau Chief), Rich Lerner (Associate Bureau Chief and Chief of Staff), Michelle Carey (Competition Policy Division Chief), Brent Olson (Deputy Chief), Tom Navin (Deputy Chief), Jeremy Miller (Staff Attorney), Rob Tanner (Staff Attorney), Steve Morris (Staff Attorney), Gina Spade (Staff Attorney) and Aaron Goldberger (Staff Attorney). SBC attendees were James Smith (Senior Vice President – FCC), Gary Phillips (General Attorney and Assistant General Counsel), Don Cain (Vice President – Federal Regulatory Policy), Mike Auinbauh (AVP – Wholesale Marketing), Daniel Fete (Vice President – Cost Analysis), Anu Seam (Senior Counsel), Christopher Heimann (General Attorney), Jim Lamoureux (Senior Counsel) and the undersigned.

Pursuant to Section 1.1206(b) of the Commission's rules, this *ex parte* is being electronically filed. I ask that this *ex parte* be recognized with the proceedings identified above.

Please call me should you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Jay Bennett". The signature is fluid and cursive, with a large loop at the beginning and a horizontal line extending from the end.

Attachments

cc: W. Maher
J. Carlisle
S. Bergmann
R. Lerner
M. Carey
B. Olson
T. Navin
J. Miller
R. Tanner
S. Morris
G. Spade
A. Goldberger



Development of a Sustainable Wholesale Model

November 18, 2002

Path to a Sustainable Wholesale Model



“Few are prospering. Few are growing. Few are spending. Few are investing. The status quo is certain death and can no longer be considered a viable option.”

“We have reached a pivotal point in this industry and we are in the process of determining what changes to the regulatory framework are indicated. The time has come to stop the finger pointing and recriminations about what happened and whose fault it is—and instead to focus on solutions.”

*Goldman Sachs Communicopia XI Conference
10/2/2002 Remarks of Michael Powell*

Path to a Sustainable Wholesale Model



- SBC is prepared to focus on answers.
- We are not here to point fingers, but rather to offer solutions.
- SBC has endeavored to develop a proposal, including a transition plan, that would meet the needs of all and could be implemented nationally.

Path to a Sustainable Wholesale Model



- SBC wants to be in the business of providing viable and sustainable wholesale products to other telecom carriers.
 - A long history of providing wholesale services in the access market.
 - Seeks to offer analogous services for the local market.
- CLECs advocate that UNE-P be continued indefinitely, while ILECs call for its elimination following a short transition period.
- The FCC's difficult charge is to develop a legally sound long-term solution, including any necessary transition to viable and sustainable business models.

Path to a Sustainable Wholesale Model



SBC's transition proposal

- Establishment of a two-year transitional wholesale offering for serving residential customers that is functionally equivalent to the UNE-P at a rate of \$26 per month.
 - CLECs could migrate new residential customers under this wholesale offering during the transition period for a non-recurring charge of \$10.00.
 - Existing UNE-P customers migrated to \$26 rate over twelve months.
- Upon the effective date of the Triennial Review Order, ILECs would no longer be required to provide UNE-P to serve business customers.
 - Resale, as well as facilities-based competition utilizing unbundled loops, would remain available.
 - Parties would remain free to negotiate business-to-business facilities leasing arrangements.

Framework

- Commission finds that competitors are not impaired on the local switching element.
- The transition plan would be appropriate as a national policy.
- Resale and UNE-L options would also remain available for CLECs to serve the mass market.
- Existing use restrictions for EELs would remain in-place.

Path to a Sustainable Wholesale Model



Plan Benefits

- Certainty restored to the telecom marketplace with adequate time for companies to negotiate business-to-business facilities leasing arrangements.
- CLECs provided with a reasonable transition period at an affordable rate.
 - CLECs will have ample time to further invest in their own loops, switches and transport facilities.
- A transitional monthly rate of \$26.00 would allow:
 - SBC to cover its operating costs.
 - CLECs' retail rates to recover their SG&A costs and provide a reasonable margin.
- States would have incentives to appropriately rationalize or deregulate residential local exchange rates.

Path to a Sustainable Wholesale Model



Estimated CLEC Retail Margins

Local & LD Offering	\$40.00	-	\$60.00
Other (Access, SLC, etc.)*	\$8.00		\$ 8.00
Total Revenue	\$48.00	-	\$68.00
Transition Plan Rate	(\$26.00)		(\$26.00)
LD Costs*	(\$5.00)		(\$5.00)
Est. SG&A @ 20%	(\$ 9.60)	-	(\$13.60)
Total Costs	(\$40.60)	-	(\$44.60)
CLEC Margin	\$7.40	-	\$23.40
% Margin	15%	-	34%

* Based on AT&T 9/30/2002 ex parte

“...competition can and will succeed, but only if fundamentals represent genuine and sustainable economic competition.”

“We must insist on market fundamentals that provide proper incentives for long term, sustainable competition.”

*Goldman Sachs Communicopia XI Conference
10/2/2002 Remarks of Michael Powell*